



TOWN OF LAUDERDALE-BY-THE-SEA

AGENDA ITEM REQUEST FORM

Rep No. 15d

Finance

Acting Finance Director Haag

Department Submitting Request:

Dept Head's Signature

Commission <u>Meeting Dates</u>	Last date to turn in to <u>Town Clerk's Office</u>	Commission <u>Meeting Dates</u>	Last date to turn in to <u>Town Clerk's Office</u>	Commission <u>Meeting Dates</u>	Last date to turn in to <u>Town Clerk's Office</u>
<input type="checkbox"/> May 25, 2010	May 14 (5:00 p.m.)	<input type="checkbox"/> July 17, 2010	July 16 (5:00 p.m.)	<input type="checkbox"/> Oct 26, 2010	Oct 15 (5:00 p.m.)
<input type="checkbox"/> June 8, 2010	May 28 (5:00 p.m.)	<input type="checkbox"/> Aug 25, 2010*	Aug 13 (5:00 p.m.)	<input type="checkbox"/> Nov 9, 2010	Oct 29 (5:00 p.m.)
<input type="checkbox"/> June 22, 2010	June 11 (5:00 p.m.)	<input checked="" type="checkbox"/> Sept 14, 2010	Sept. 3 (5:00 p.m.)	<input type="checkbox"/> Nov 23, 2010	Nov 12 (5:00 p.m.)
<input type="checkbox"/> July 14, 2010	July 2 (5:00 p.m.)	<input type="checkbox"/> Oct 13, 2010	Oct 1 (5:00 p.m.)	<input type="checkbox"/> Dec 4, 2010	Dec 3 (5:00 p.m.)

* Subject to change

NATURE OF AGENDA ITEM

- | | | |
|---|---|--|
| <input type="checkbox"/> Presentation | <input type="checkbox"/> Ordinance | <input type="checkbox"/> Old Business |
| <input type="checkbox"/> Reports | <input type="checkbox"/> Resolution | <input checked="" type="checkbox"/> New Business |
| <input type="checkbox"/> Consent Agenda | <input type="checkbox"/> Quasi Judicial | <input type="checkbox"/> Other |

SUBJECT TITLE: ADOPTION OF NEW INVESTMENT POLICY

EXPLANATION:

The Town's current investment policy was adopted by resolution on September 25, 2001 and has not been updated since. With much assistance from the former town manager and an outside consultant (at no charge to the town) we're proposing the first rewrite of this policy since it was originally adopted. In general, the rewrite provides numerous improvements in the area of controls as outlined below.

- A. Investment Objectives – The overall objectives are essentially identical with the order of priority and emphasis being safety of principal, liquidity, diversification and yield. Note that yield, or return on investment is given the lowest priority, as it should be.
- B. Performance Measurement – The current investment policy benchmarked the average return on investments held by the Florida State Board of Administration Local Government Surplus Funds Investment Pool (FSBA). The FSBA Pool is the one whose assets were frozen several years ago and included some of the Town's investment funds.) The proposed policy uses a more realistic benchmark for return on investment by utilizing the average yield of the six-month U.S. Treasury Bill.
- C. Ethical Standards – Both policies adhere to the 'Prudent Person Rule' which is considered a best practice for investment policies.
- D. Authorized Investments – Likewise, the authorized investments under both policies are identical with the following listed as allowable:
 - a. Obligations of the United States Government, its agencies and instrumentalities
 - b. Fully insured or collateralized certificates of deposit
 - c. SLC Money Market Funds – The proposed policy includes more specific language regarding the required rating of these funds.
 - d. Repurchase agreements – The proposed policy is more flexible regarding maturity limits – 180 days instead of 90 for the current policy
 - e. Intergovernmental investment pools such as the SBA and the Florida League of Cities (FLC)
 - f. Interest bearing time and demand accounts held at a Qualified Public Depository (QPD)



TOWN OF LAUDERDALE-BY-THE-SEA

AGENDA ITEM REQUEST FORM

Finance

Department Submitting Request

Acting Finance Director Haag

Dept Head's Signature

- F. Risk Diversification, Liquidity and Maturity Limitations - The differences between the two policies are outlined in the following table

Investment Type	Maximum Limit		Limit on Investments Placed w Any Issuer		Maturity Limit	
	Current	Proposed	Current	Proposed	Current	Proposed**
Interest Bearing Checking	35%	No limit	No limit	No limit	NA	NA
Certificates of Deposit	60%	50%	15% Banks	No limit	1 year	2 years*
SEA Trust Fund/Local Government Investment Pools	60%	70%	No limit	10% of Pool	NA	NA
Repurchase Agreements	50%	No limit	5% Banks	No limit	90 days	180 days
SEC Money Market Funds	60%	50%	5% Others	10% of Fund	1 year	None
U.S. Securities/Treasuries	40%	90%	NA	NA	5 years	2 years
U.S. Federal Agencies	10%	60%***	15%	No limit	5 years	2 years
Federal Instrumentalities	25%	60%***	15%	No limit	5 years	2 years

* Cannot invest > 20% for more than 1 year and no investment can exceed 2 yrs.

** Note that there is an overall limit that the maximum weighted average maturity of the overall portfolio may not exceed 6 months.

*** The 60% limit is a combined limit for Federal Agencies and Instrumentalities.

- F. Delegation and Responsibilities - The current policy is silent as to who on staff has responsibility has investment responsibility while the proposed policy designates the Finance Director as the Investment Officer.
- G. Internal Controls - The current policy includes samples of internal controls that are not consistent with the Finance Department's Internal Standard Operating Procedures manual (dated August, 2001). And, some of the internal controls shown are not applicable to investments, such as those regarding payroll. The proposed policy simply requires that procedures be established. This is preferred as it is easier to maintain a single Finance Department procedures manual and maintain the information in one document and include it by reference only in the investment policy. This eliminates any redundancies and possible discrepancies between the two documents.
- H. Reporting - The proposed policy requires a monthly report be submitted to the Town Manager plus a quarterly report to the Commission. It's my understanding that this has not been done in the past. Such reporting is reasonable and also considered best practice.
- I. Policy Review and Amendment - The proposed policy requires that the policy be reviewed and readopted by the Commission at least every three (3) years. This is reasonable and should be adhered to. A more frequent review can be conducted if the situation warrants (i.e. the recent meltdown of the financial markets).



Item No. _____

TOWN OF LAUDERDALE-BY-THE-SEA

AGENDA ITEM REQUEST FORM

Finance

Department Submitting Request

Acting Finance Director Haag

Dept. Head's Signature

RECOMMENDATION:

Approve the proposed new investment policy and authorize a period of three months to comply with the new policy.

EXHIBITS:

Current Investment Policy

Proposed Investment Policy

FISCAL IMPACT AND APPROPRIATION OF FUNDS: NA

- | | |
|---|--|
| <input type="checkbox"/> Amount \$ _____ | <input type="checkbox"/> Acct # _____ |
| <input type="checkbox"/> Transfer of funds required | <input type="checkbox"/> From Acct # _____ |

Does Attorney review required

☐ Yes ☒ No

Town Manager's Initials: _____

**INVESTMENT POLICY
LAUDERDALE-BY-THE-SEA, FLORIDA**

Adopted _____, 2010

I. POLICY STATEMENT

It is the policy of the Town of Lauderdale-by-the-Sea (the "Town") that the administration of its funds and the investment of those funds shall be handled as a matter of highest public trust. Investments shall be made in a manner which will provide both a reasonable yield and maximum security of principal invested, while meeting the daily cash flow needs of the Town and conforming to the Florida Statutes Title XIV, Chapter 218.

The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. It is the intent of the Town to be in complete compliance with local and state law. The earnings from investment will be used in a manner that best serves the interests of the Town.

II. SCOPE

This investment policy applies to all the financial assets and funds of the Town. The Town commingles its funds into one pooled investment portfolio for investment purposes for efficiency and maximum investment opportunity. The individual funds are defined in the Town's Comprehensive Annual Financial Report (CAFR) and include any new funds created by the Town unless specifically exempted by the Town Commission and this policy. This Policy does not apply to pension funds.

III. OBJECTIVES AND STRATEGY

It is the policy of the Town that all funds shall be managed and invested with four primary objectives, listed in order of their priority: safety, liquidity, diversification and yield. Investments are to be chosen in a manner which promotes diversity by market sector, credit and maturity. The choice of high-grade government investments and high-grade, money market instruments is designed to assure the marketability of those investments should liquidity needs arise. To match anticipated cash flow requirements the maximum weighted average maturity of the overall portfolio may not exceed six months.

Safety of Principal

Safety of principal is the foremost objective of the Town. Investments of the Town shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio. A ladderized portfolio structured to meet known liabilities while providing a liquidity buffer shall be an ongoing objective of the investment program.

Liquidity

The Town's investment portfolio will be based on a cash flow analysis of needs and will remain sufficiently liquid to enable it to meet all operating requirements which might be reasonably anticipated.

Diversification

Diversification of the portfolio will include diversification by maturity and market sector and will include the use of a number of broker/dealers for diversification and market coverage. Competitive bidding will be used on each sale and purchase.

Yield

The Town's investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the Town's risk constraints and the cash flow needs of the portfolio. The Town will use the average yield of the six-month U.S. Treasury Bill during the same period as its benchmark for risk and performance.

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability. The Town shall maintain a comprehensive cash management program which includes collection of accounts receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms and the management of banking services.

IV. LEGAL LIMITATIONS, RESPONSIBILITIES AND AUTHORITY

Direct specific investment parameters for the investment of public funds in Florida are found in the State Statutes 218.415 (the "Statute"). All investments will be made in accordance with this statute. Florida Statutes, Chapter 280 specifies collateral requirements for all public funds deposits.

V. DELEGATION AND RESPONSIBILITIES

Investment Officers

The Town Commission will by resolution or order designate the Finance Director as the Investment Officer for the Town. The Finance Director, acting on behalf of the Town Commission, is responsible for investment management decisions and activities, but the Town Commission retains ultimate fiduciary responsibility. The Investment Officer is responsible for considering the quality of investments, investment advisors, and consultants involved in investment management and procedures. The Investment Officer shall obtain eight (8) hours of investment training annually, provided by the Town, to assure understanding of the investments and transactions and the ability to manage the portfolio.

The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this Investment Policy. Procedures will include reference to safekeeping, wire transfer agreements, banking services contracts, and other investment related activities. Every investment transaction shall be based on the anticipated cash-flow needs of the Town. The Investment Officers shall analyze market conditions, analyze and select the optimal investment through a competitive process.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this Policy and the procedures established.

Authorization Resolution

The Commission resolution designating the Investment Officer authorizes the Investment Officer to engage in investment transactions, deposit, withdraw, wire funds for investments, transfer and manage funds on behalf of the Town.

Limitation of Personal Liability

The Investment Officer, when acting in accordance with the written procedures and this Policy and in accord with the Prudent Person Rule, shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.

VI. PRUDENCE

The standard of prudence to be used in the investment function shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. This standard states:

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived."

VII. INTERNAL CONTROLS

The Investment Officer shall establish written internal controls to be reviewed annually by the independent auditor of the Town. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions.

Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain cash flow requirements of the Town. Supplemental to the financial and budgetary systems, the Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes.

VIII. AUTHORIZED INVESTMENTS

Acceptable investments under this policy shall be limited to the instruments listed below. If additional types of securities are approved for investment by public funds by state statute, they will not be eligible for investment by the Town until this policy has been amended and the amended version adopted by the Town Commission.

- A. Obligations of the United States Government, its agencies and instrumentalities, not to exceed two years to stated maturity, excluding all mortgage-backed securities;
- B. Fully insured or collateralized certificates of deposit from any bank doing business in the State of Florida and under the terms of a written depository agreement with that bank, not to exceed one year to stated maturity, to include certificates of deposit purchased through the CDARS program with a Florida bank;
- E. Repurchase agreements as defined by the Statutes, not to exceed 180 days to stated maturity, provided an executed Master Repurchase Agreement is on file with the Town and the counterparty bank or primary dealer as defined by the Federal Reserve. Flex repurchase agreements used specifically for capital projects may extend beyond two years but only to match the expenditure plan of the projects;
- F. AAA-rated, no-load, SEC-registered money market funds;
- G. Constant dollar, Local Government Surplus Funds Trust Fund or other intergovernmental investment pool authorized pursuant to Florida Interlocal Cooperation Act of 1969 as amended; and
- H. Interest bearing time and demand accounts in qualified public depositories as defined in Florida Statutes 280.02.

IX. PROHIBITED INVESTMENTS

The Town is prohibited from investing in any company that engages in business with any countries that are on the prohibited list as part of the Protecting Florida's Investment Act (Chapter 2007-88 FS). The Town Manager may promulgate specific requirements for the implementation of this provision based upon the criteria applied by the Local Government Surplus Funds Trust Fund for such purposes.

X. COMPETITIVE BIDDING REQUIREMENT

All securities, including certificates of deposit and obligations of the United States Government, will be purchased or sold only after three (3) competitive offers/bids are taken to verify that the Town is receiving fair market value/price for the investment. The information concerning the competitive prices offered shall be documented on the trade documentation.

XI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

All investments made by the Town will be made through an approved broker/dealer. The Town Commission will review the list of broker/dealers annually. A list of at least three broker/dealers will be maintained in order to assure competitive bidding. The banking services bank will not be used as a broker to assure the perfection of ownership or safekeeping.

Securities broker/dealers must meet certain criteria as determined by the Investment Officer. The following criteria must be met by those firms on the list.

- proof of certification by the Financial Industry Regulatory Association (FINRA) and provision of FINRA CRD number, and
- proof of current registration with the Florida State Securities Board.

Every broker/dealer and bank with which the Town transacts business will be provided a copy of this Investment Policy for review to assure that they are familiar with the goals and objectives of the investment program.

XII. DIVERSIFICATION AND MATURITY LIMITATIONS

It is the policy of the Town to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed.

At a minimum, diversification standards by authorized security shall be:

	<u>Max. % of Portfolio</u>
US Treasuries	not to exceed 90%
US Agencies and Instrumentalities	not to exceed 60%
Certificates of Deposit	not to exceed 60%
Local Government Investment Pools	not to exceed 70%
Town's Percent of Ownership of Pool	not to exceed 10%
SEC Money Market Mutual Funds	not to exceed 50%
Town's Percent of Ownership of Fund	not to exceed 10%

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will normally increase yield, will lock in higher yields and reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer may not invest more than 20% of the portfolio for a period greater than one (1) year. The Investment Officer may not invest any portion of the portfolio for a period greater than two (2) years except in a flex repurchase agreement tied to the expenditure schedule of a bond fund.

XIII. DELIVERY, SAFEKEEPING AND COLLATERALIZATION

Delivery versus Payment

All security transactions, including collateral for repurchase agreements, entered into by the Town, shall be conducted on a delivery versus payment (DVP) basis assuring that no Town funds are released before the security is received by the custodian.

Safekeeping of Town-Owned Securities

All purchased securities be cleared to safekeeping on a delivery versus payment (DVP) basis and be held in safekeeping by an independent third party financial institution or the Town's banking services depository.

All safekeeping arrangements shall be approved by the Investment Officer and an agreement of the terms executed in writing. The independent third party custodian shall be required to issue safekeeping receipts to the Town listing each specific security, rate, description, maturity, cusip number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the Town or pledged to the Town.

Securities Pledged as Collateral to the Town

All securities pledged to the Town for all bank time or demand deposits shall be held by an independent third party institution. The safekeeping bank may not be within the same holding company as the bank from which the securities are pledged.

Collateralization is required on all time and demand deposits over the FDIC insurance coverage. In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level required will be 102% of the market value of the principal and accrued interest. Collateral will be held by an independent third party custodian. The custodian shall provide a written monthly report directly to the Town listing all pledged collateral by description and par at a minimum.

Authorized Collateral

The only types of collateral authorized by the Town are:

- Obligations of the US Government, its agencies and instrumentalities including mortgage-backed securities which pass the bank test.
- Obligations of any state or subdivision, town, county, school district of any state which is rated A or better by two nationally recognized rating agencies.

If the depository proposes a collateral pooling program the Investment Officer will review and evaluate the program's risk and cost to the Town for presentation to the Commission. The pooling of collateral allows a bank to create a pool of securities for collateral purposes for multiple governments and will not result in securities pledged directly/specifically to each government.

XIV. PERFORMANCE EVALUATION AND REPORTING

The Investment Officer shall submit a monthly report to the Town Manager and a quarterly report to the Town Commission containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program and consistent with statutory requirements. All reports shall be in compliance with the Statutes. At a minimum the report shall:

- include the beginning and ending amortized book and market value of the entire portfolio,
- include all funds of the Town including those in depositories, pools and specific investments,
- include detail describing each position (at a minimum type, coupon, purchase date, maturity date, yield),
- include total earnings for the period, and
- include the dollar weighted yield of the portfolio and the benchmark.

Market prices for market evaluations will be obtained from an independent source.

XV. DEPOSITORIES

The Town will designate one banking institution through a competitive process as its central banking services provider at least every five years. This bank will be used for normal banking services including disbursements, collections, and safekeeping of securities.

Other banking institutions from which the Town may purchase certificates of deposit will also be designated as a depository for collateral purposes and shall submit annual financial reports to the Town.

XVI. INVESTMENT POLICY ADOPTION BY GOVERNING BOARD

The Town's Investment Policy shall be reviewed and adopted by the Town Commission at least every three years. The written resolution adopting the Policy shall note any changes to the Policy.